

FILE COPY

Office - Supreme Court, U.S.
FILED

MAR 28 1942

CHARLES ELMORE CROPLEY
CLERK

IN THE
SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, A. D. 1941.

No. 1029: 45

SOLA ELECTRIC COMPANY, a Corporation,
Petitioner,
vs.

JEFFERSON ELECTRIC COMPANY, a Corporation,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES
CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

**BRIEF OF RESPONDENT IN OPPOSITION TO PE-
TITION FOR WRIT OF CERTIORARI TO
THE CIRCUIT COURT OF APPEALS
FOR THE SEVENTH CIRCUIT.**

THOMAS H. SHERIDAN,
135 South La Salle Street,
Chicago, Illinois,
Counsel for Respondent.

INDEX

| | |
|---|----|
| Summary of Argument | 1 |
| I. The Case at Bar Is Purely a Proceeding by One Contractor Against Another and the Only Issue Is the Response or Non-Response of Petitioner's Transformers to the Claims Charged to Read Upon Them | 4 |
| II. The License Contract Between the Parties Is Not Onerous or Oppressive and Is Not <i>Contra</i> Public Policy. Respondent Has Discharged Its Obligation Under the License Contract | 5 |
| III. The Doctrine of Licensee-Estoppel Has Long Been Accepted and Approved by the Courts of this Country | 10 |
| IV. The Sixth Circuit Court of Appeals Did Not Directly or Indirectly Hold Invalid Any of the Claims of the Daley <i>et al.</i> Patent But on the Contrary Expressly Recognized Claims Originally Asserted and Later Withdrawn from Suit Before Trial as Invested With Their Original <i>Prima Facie</i> Validity | 12 |
| Conclusion | 15 |

List of Authorities.

| | |
|--|----|
| B. B. Chemical Co. case, 86 L. Ed. 320..... | 7 |
| Bement <i>v.</i> National Harrow Co., 186 U. S. 70..... | 6 |
| Carbice case, 283 U. S. 27..... | 7 |
| Chicago & A. Railway <i>v.</i> Pressed Steel Co., 243 Fed. 883 | 11 |
| Ethyl Gasoline case, 309 U. S. 436..... | 7 |

| | |
|---|-------|
| Galion Iron Works & Mfg. Co. v. J. D. Adams Mfg. Co., 105 F. (2d) 943, 947, 948 | 11 |
| Indiana Mfg. Co. v. J. I. Case Threshing Machine Co., 154 Fed. 365, 370 | 11 |
| Jefferson Electric Co. v. France Mfg. Co., 106 F. (2d) 605 | 4, 14 |
| Kessel <i>et al.</i> , 113 F. (2d) 381, 382; cert. den. 311 U. S. 703 | 11 |
| Kinsman v. Parkhurst, 59 U. S. 289 | 10 |
| Lecithin case, 106 F. (2d) 207 | 7 |
| Leitch v. Barber Asphalt Co., 302 U. S. 458 | 7 |
| Morton Salt Co. case, 86 L. Ed. 317 | 7 |
| Motion Picture patent case, 243 U. S. 513 | 7 |
| Steiner Sales Co. v. Schwartz Sales Co., 98 F. (2d) 999, 1009 | 12 |
| U. S. v. General Electric Co. <i>et al.</i> , 272 U. S. 476.... | 6 |
| Walker on Patents—Deller's Ed., Vol. 2, p. 1492.... | 12 |

IN THE
SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, A. D. 1941.

No. 1029.

SOLA ELECTRIC COMPANY, a Corporation,
Petitioner,

vs.

JEFFERSON ELECTRIC COMPANY, a Corporation,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES
CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

BRIEF OF RESPONDENT IN OPPOSITION TO PETI-
TION FOR WRIT OF CERTIORARI TO THE CIR-
CUIT COURT OF APPEALS FOR THE SEVENTH
CIRCUIT.

Summary of Argument.

This controversy is wholly one between the licensor and the non-exclusive licensee under a patent license contract, the Petitioner-licensee being charged with failure to account for and pay royalties on certain devices charged to be covered by certain claims of the Daley *et al.* patent No. 1,777,256 of September 30, 1930.

Respondent has sought and is seeking the right to attack the validity of those claims while operating as a licensee thereunder, this in the face of its undisputed right to terminate the license agreement on 30 days' notice.

Because of a provision in the license contract obligating the licensee to charge the same prices for its licensed product as those charged by the licensor, Petitioner has sought to inject an element of public interest, or public policy, into its petition and brief in order to prevail upon this Court, as it endeavored to do in the Seventh Circuit Court of Appeals, to disregard a long-established doctrine of licensee-estoppel which precludes an attack upon the validity of patent claims under which it is licensed.

There is fundamentally no interest of the public and no question of public policy involved in the controversy.

Obviously any member of the public is perfectly free to enter into the manufacture, sale and use of transformers not covered by the claims of the Daley *et al.* patent or covered only by invalid claims of that patent, if such there be.

Labored effort is made to distort a decision of the Sixth Circuit Court of Appeals in an earlier-instituted litigation under the same patent against an infringer, the France Mfg. Co. (106 F. 2d 605). It requires only a superficial reading of the decision of that Court to recognize that it was not declaring any of the claims not there in suit invalid but on the contrary was expressly leaving all the claims not there in suit invested with their *prima facie* validity.

The real issue and the only real issue of this controversy is the response or non-response to the claims sued upon, of the transformers manufactured by Petitioner

for which no accounting has been made as provided in the contract.

The license contract between the parties is not onerous or oppressive and does not contravene public policy.

The Respondent has fully discharged its obligation under the license contract to "bring and diligently prosecute such suits for infringement of the patents under which this license is granted as may be necessary for enforcing those patents and preventing unlicensed competition" (R. p. 9). No averment to the contrary appears in Petitioner's answer or counterclaim.

Much stress is laid upon Respondent's withdrawal of certain claims of the Daley. *et al.* patent before trial of the suit against the France Company, with repeated reiteration that such withdrawal was because of the recognized invalidity of those claims and that this action by Respondent constituted a breach of the spirit and intent of the license contract.

There is no such provision embodied in the contract nor any to be read thereinto by implication despite Petitioner's effort so to do.

The doctrine of licensee-estoppel has long been accepted and endorsed by the Courts of this country and very properly so. It would be unconscionable if a patent licensee were permitted to accept all of the benefits flowing from its license while at the same time in position to attack portions of that patent, presumptively valid, and thereby impair if not destroy the patent under which it has derived benefits.

As the Seventh Circuit Court of Appeals very aptly pointed out in the case at bar, Petitioner was under no compulsion to enter into the license contract (Rec.

p. 69) and it should have insisted upon embodiment in the contract of a provision compelling Respondent to sue upon each and every claim which might reasonably be deemed to be infringed by an unlicensed competitor, if it desired that sort of contract. Obviously that was not done and the obligation which was imposed upon Respondent was only to sue, not to assert all possible claims in the event of suit.

I.

The Case at Bar Is Purely a Proceeding by One Contractor Against Another and the Only Issue Is the Response or Non-Response of Petitioner's Transformers to the Claims Charged to Read Upon Them.

A review of the pleadings (Rec. p. 2 *et seq.*) clearly establishes that the complaint filed herein charges Respondent with certain breaches of the license contract between the parties and includes a prayer for an accounting upon certain transformers manufactured and sold by Petitioner upon which no report or account was made. That, after issue was joined, made the real issue simply one of response or non-response of those unreported transformers to the claims in suit, of course with the right enuring to the Petitioner to avail itself of the prior art to determine the proper scope of those claims but without any right enuring to Petitioner to attack the validity of those claims.*

* Incidentally we point out that among the claims charged to cover these unreported devices are included claims 14 and 19 (Rec. p. 39) which were adjudged valid and infringed by the Sixth Circuit Court of Appeals in the suit of *Jefferson Electric Co. v. France Mfg. Co.* reported at 106 F. 2d 605.

II

The License Contract Between the Parties Is Not Onerous or Oppressive and Is Not Contra Public Policy. Respondent Has Discharged Its Obligation Under the License Contract.

The license contract grants a non-exclusive license under two patents including the Daley *et al.* patent No. 1,777,256 of September 30, 1930, and a casual reading of it is sufficient to establish that the terms are not oppressive upon the Petitioner. As the lower court very aptly put it:

"The license before us was not entered into without thought on the part of appellant" (Rec. p. 69).

The agreement does provide for maintenance of the same prices by Petitioner that are charged its customers by Respondent. There is nothing improper in such a provision and obviously it could hardly be expected that a manufacturing licensor would grant a license under its patents to a competitor and permit that competitor to ruin its market by destructive price cutting. Certainly, Petitioner is in a much better position in being permitted to operate as a licensee and being permitted to enjoy the monopoly of the Daley *et al.* patent than it would be if forced to operate as a competitor with unpatented devices.

Having in mind that Petitioner at any time may terminate the agreement upon 30 days' notice (Rec. p. 10, par. 11), the very tenacity with which Petitioner clings to its license despite this controversy and despite its protestations of the invalidity of many of the claims of that patent cogently evidences the value which it places upon its license.

Petitioner has seen fit to include an affidavit by one Marshall in its petition (p. 14) setting forth a number of other substantial licensees and alleging a substantial volume of business in these patented transformers.

We had always believed the rule to be that on motions to dismiss of this character only pleadings were available for consideration and that affidavits were not properly to be received or considered. Possibly we are in error in this understanding.

In any event the Marshall affidavit indicates something of the merit and value of the invention of the Daley *et al.* patent under which Petitioner is licensed and gives further evidence of the reason for its clinging to its license thereunder.

As to the alleged public interest and public policy, we simply point out what is already well known to this Court, that maintenance of prices of a patented product by licensees under the patent or patents covering that product has repeatedly been adjudged perfectly proper and not in contravention of the public interest or public policy.

It is sufficient to point to two leading cases decided by this Court wherein such agreements were held legal and proper:

Bement v. National Harrow Co., 186 U. S. 70.

U. S. v. General Electric Co. et al., 272 U. S. 476.

As we have said above, public interest is not involved. Any member of the public is free to manufacture, sell and use any portion of the Daley *et al.* invention which is not covered by valid claims. There is no restraint in that respect upon the public.

It is emphatically asserted in Petitioner's brief (p. 22 *et seq.*) that "the public is entitled to free competition in a device which is a part of the public domain,"

and we have no quarrel with that contention. However, it is for the public to decide whether or not the *prima facie* or presumptive validity attaching to the grant by the Patent Office is rebuttable, should the public or any member thereof wish to manufacture, sell, or use the invention disclosed and claimed by Daley *et al.*

The cases cited by Petitioner such as the *Motion Picture* patent case, 243 U. S. 513; the *Ethyl Gasoline* case, 309 U. S. 436; the *Lecithin* case, 105 F. (2d) 207; the *Carbice* case, 283 U. S. 27; *Leitch v. Barber Asphalt Co.*, 302 U. S. 458; and the very recent cases of *Morton Salt Co.*, 86 L. Ed. 317, and *B. B. Chemical Co.*, 86 L. Ed. 320, all involved an effort by the patent owners of those suits to extend the monopolies of their patent claims beyond what was actually claimed in order to control the sale or use of unpatented materials, commodities, apparatus, etc.

There is no such situation confronting the Court in the case at bar as is obvious.

As to the alleged public interest in this controversy, we pose this question: Would the public be in any better position if Respondent had never extended licenses to Petitioner and other manufacturers to manufacture, sell and use the invention of the Daley *et al.* patent? Most certainly, if anything, the public would be in worse plight with only one source of supply in lieu of the numerous sources indicated by the Marschall affidavit, and yet the Respondent was under no obligation to extend the benefit of its patent monopoly by license to Petitioner and others.

We submit likewise that there is no obligation, actual or implied resting upon Respondent to assert all of its claims or any particular number of such claims

against an infringer. It is merely obligated under the agreement to assert its patent *to stop unlicensed competition* and that has been done in the case of the France Mfg. Co., *supra*. Petitioner seeks to read an implied obligation to sue under all claims which may be deemed to infringe by reference to that portion of the license contract which relieves it of further payment of royalties after final adjudication of invalidity of any claims which *alone* cover devices of the Petitioner's manufacture (Rec. p. 10, par. 11b).

That, we say, is not an obligation to assert all claims which might be deemed infringed. It would have been a simple matter so to phrase the contract had that been the intent and desire of the parties.

In this connection, Petitioner asks in its brief (p. 31):

"Must petitioner wait until respondent chooses to sue upon the broad claims before Petitioner can secure a formal adjudication of their clear invalidity and share in the rights of the public to the subject matter defined therein?"

The answer to that is "Yes," *unless* the public is infringing those claims and impairing the monopoly under those claims which Petitioner is enjoying, in which latter event, Respondent is obligated reasonably to institute suit against the infringing members of the public.

In short, until Petitioner is evicted from its enjoyment of the license (and we deny that there is any eviction here), it may not avoid its obligation to pay the royalties due because of such enjoyment.

It is obvious that this Petitioner is seeking a judicial reformation of its license contract with nothing to establish any such intent on the part of the contracting parties.

There is constant reference to "broad claims" and "narrow claims" in Petitioner's brief in an effort to interpret the decision of the Sixth Circuit Court of Appeals in the France case as an adjudication of invalidity of those so-called broad claims. We do not accept that classification and as we shall point out later, no such conclusion may rightly be reached from that decision.

There is no charge in the Petitioner's counter-claim that Respondent has failed to sue infringers as required by paragraph 10 of the license contract (Rec. p. 9). The complaint is that it did not permit all of the claims originally asserted in the France litigation to remain in suit at the trial of that cause. As stated before, no provision may be found in the license contract which compels any such unreasonable procedure on the part of the Respondent.

What may have motivated counsel for Respondent in the France case to withdraw certain claims before trial in the case is not known to us but we find no justification in the record of that case for the assertions of Petitioner scattered through its petition and brief and certainly the Court of Appeals for the Sixth Circuit clearly held that such action did not affect the validity of the withdrawn claims (106 F. 2d 610, 611).

Petitioner does mention in its petition (p. 12, footnote) that the District Court entertaining the accounting in the France case, refused to include a subsequently developed transformer in that accounting leaving it to Respondent here to institute any action if such device were deemed to infringe. On this point, the decision of the Seventh Circuit Court of Appeals below is very apt:

"There is no provision in the license which re-

quires the licensor to institute any action for the purpose of declaring any claim invalid. It was clearly appellant's intention to be protected by every claim in the patent. So, when appellee instituted action in the Sixth Circuit against the France Manufacturing Company, its duty was to prosecute that case for the purpose of enforcing the patents and preventing competition of France with appellant (Petitioner here), who was not a party to the action. *This it did by establishing the validity of three claims just as effectively as if it had prosecuted every claim. Appellee had a right to choose the claims for contest in that case in order to carry out its duty to appellant under the license.*" (Italics ours—Rec. p. 69.)

III.

The Doctrine of Licensee-Estoppel Has Long Been Accepted and Approved by the Courts of this Country.

At least as early as 1855 this Court laid down the doctrine that a patent licensee is estopped to challenge the validity of the patent under which it is licensed. We refer to the leading case of *Kinsman v. Parkhurst*, 59 U. S. 289, where the Court, speaking through Justice Curtis, stated:

"But we have not found it necessary to come to a decided opinion upon this point because we are all of the opinion that, under the agreement of the 9th of February, 1846, *the invalidity of the patent would not afford a bar to the complainant's right to an account.* Having actually received profits from the sales of the patented machines, which profits the defendants do not show have been or were in any way liable to be affected by the invalidity of the patent, its validity is immaterial. However, we think *the defendants are estopped*

from alleging that invalidity. They have made and sold these machines under the complainant's title and for his account, and they can no more be allowed to deny the title and retain the profits to their own use, than an agent who has collected a debt for a principal, can insist on keeping the money upon an allegation that the debt was not justly due." (*Italics ours*—l. c. 292, 293.)

This Court in the cited case went farther than is required in the case at bar in holding that even an adjudication of invalidity in collateral litigation would not benefit licensee or enable it to escape payment of sums due the licensor under the license. In the instant case the Petitioner is fully protected by the license agreement in the event the patent claims under which it is licensed are judged invalid, and is further protected by its contractual right to terminate the agreement on thirty days' notice.

We repeat, it should not be permitted to retain its license and enjoy the benefits thereof and at the same time attack the validity of the patent under which it is licensed.

Other cases frequently cited, recognizing this doctrine, include the following:

Indiana Mfg. Co. v. J. I. Case Threshing Machine Co., 154 Fed. 365, 370 (7 C. C. A.).

Chicago & A. Railway v. Pressed Steel Co., 243 Fed. 883 (7 C. C. A.).

Galion Iron Works & Mfg. Co. v. J. D. Adams Mfg. Co., 105 F. (2d) 943, 947, 948.

Kessel et al., 113 F. (2d) 381, 382 (7 C. C. A.); cert. den. 311 U. S. 703.

The petitioner's brief contains the statement that in the instant patent license, "There has been no express acknowledgment by petitioner of validity, nor has pe-

itioner expressly covenanted not to contest validity; ...” (p. 21).

As to this we say it has always been recognized that the acceptance of a license such as here involved implies a concession of validity by the licensee.

Steiner Sales Co. v. Schwartz Sales Co., 98 F. (2d) 999, 1009 (10 C. C. A.).

Walker on Patents—Deller's Edition, Vol. 2, p. 1492.

Incidentally, government-sponsored Chemical Foundation, Inc., availed itself of this same doctrine of licensee-estoppel in the Supreme Court of New York in a recent suit instituted by it against Bethlehem Steel Co., Inc., to recover royalties under a patent license agreement and the Court in that case (reported at 46 U. S. P. Q. 290) recognized this doctrine and likewise the propriety of including price maintenance provisions in a patent license agreement.

IV.

The Sixth Circuit Court of Appeals Did Not Directly or Indirectly Hold Invalid Any of the Claims of the Daley et al. Patent But on the Contrary Expressly Recognized Claims Originally Asserted and Later Withdrawn from Suit Before Trial as Invested With Their Original Prima Facie Validity.

A labored effort is made, by constant reiterated misstatement, to distort the opinion of the Circuit Court of Appeals for the Sixth Circuit in the France case to convince this Court that the non-asserted claims (previously withdrawn from suit) were adjudged invalid by that Court, whereas the contrary was definitely true as we shall point out.

It is true that the Sixth Circuit Court of Appeals did point to the presence in the prior art of certain elements of the transformer of the Daley *et al.* patent. *Such findings, however, were in connection with the Court's consideration and evaluation of claims 8, 14 and 19 which were retained in suit and adjudged valid and infringed.*

Petitioner constantly seeks to persuade this Court in its brief (p. 5 *et seq.*) that only a balanced transformer is covered by the claims withdrawn from the France litigation and couples such statement with the finding of the Court that the balanced transformer was old in the art. We do not challenge that finding of the Court.

We do say, however, that the withdrawn claims include elements and details which were not specifically discussed by the Court and the Court was very obviously not passing upon the validity or invalidity of such claims.

We see no pertinence to this controversy in the labored effort to parallel such claims with the findings of the Sixth Circuit Court of Appeals for that reason.

The outrageous statement is also made in the petition:

"... in a prior patent infringement suit involving the licensed patent, a competent court not only vitiated the *prima facie* validity of certain claims but also, in practical effect, found them invalid,..." (p. 9).

and again we challenge the statement:

"... a court has found patentability solely in a specific combination,..." (p. 10).

We repeat, the Court was expressly considering only the claims retained in suit, mainly, 8, 14 and 17.

The answer to all of these fallacious assertions and contentions is found in the opinion itself of the Court of Appeals for the Sixth Circuit in the France case (106 F. 2d 605) in the following words:

"... the attorney for appellee in the case at bar expressly declined to abandon the claims not declared on.

"(12) In our opinion this was not a binding admission that the claims not in suit were invalid" (citing cases).

"(13) The trial court refused the request of counsel for appellant to rule on the validity of the claims of the patent not declared. A consideration of the evidence makes applicable the rule that an inspection of the patent by the patentees or the assignee would not have disclosed that they had claimed more than they had invented or described. They had the right to rely on the presumption of the validity of their claims granted by the Patent Office until a court of competent jurisdiction decided that their claim or claims were broader than their real invention." (Citing cases—106 F. 2d 610, 611.)

How in the face of that statement by the Court, Petitioner can contend that the Court stripped all those withdrawn claims of their presumptive validity is beyond our comprehension. Certainly, the Court of Appeals for the Seventh Circuit in the case at bar did not so think as is evidenced by the following quotation from its opinion:

"Appellant further contends that the decision in the France case published to the world the invalidity of the claims which were withdrawn, and constitutes an eviction of appellant from any claim of monopoly thereafter. It further argues that that court, inferentially at least, declared those withdrawn claims invalid. There is no language in that decision which bears out this statement.

True, the appellant in that case made a vigorous effort to have that court pass upon the validity of the claims withdrawn, but it expressly declined to do so" (Rec. p. 70).

Incidentally we also challenge the assertion in the petition (p. 7):

"... that Respondent is attempting to exercise unlawfully price control over Petitioner on devices which if covered at all, *are covered only by the broad claims of the patent, which were withdrawn from issue in the prior suit and which are in fact void.*" (Italics ours.)

Reference to the bill of particulars in this case establishes that these devices are charged (Rec. p. 39) to come within claims 14 and 19 of the Daley et al. patent as well as others and these claims 14 and 19 were litigated in the France case and found valid and infringed.

Conclusion.

In conclusion, we submit that the lower courts, respectively, dismissed and approved the dismissal of Petitioner's counter-claim; that the long established doctrine of licensee-estoppel is a perfectly proper one and clearly applicable in the instant case to preclude Petitioner from attacking the validity of claims of the Daley et al. patent under which it is licensed; that the interest of the public is in no wise affected by or involved in the dismissal of said counter-claim; and that Petitioner's petition should be dismissed.

Respectfully submitted,

THOMAS H. SHERIDAN,
Counsel for Respondent.

Chicago, Illinois,
March 26, 1942.